

MINUTES
Policemen's Pension and Trust Relief Fund
Thursday, September 10, 2009
9:00 a.m.

On Thursday, September 10, 2009 at 9:00 a.m., a meeting of the Board of Trustees of the Policemen's Pension and Relief Fund of the City of Little Rock, Arkansas was held in the Sister Cities Conference Room at City Hall.

PRESENT:	Farris Hensley	Secretary
	Sara Lenehan	Treasurer
	Lee Harrod	Member
	Brad Furlow	Member
	David Rowan	Member

ABSENT:	Bruce Moore	Chairman
	Mike Lowery	Member

Also present were Mr. Alex Jordan and Mr. Bo Brister of Stephens Capital Management Financial Consultants for the Fund; Mr. Roger Smith, Government Relation Lobbyists for the Fund, Mr. Jody Carreiro and Mr. Ryan Cloninger of Osborne, Carreiro, and Associates, Faith Abubey of KTHV news, Mr. David Goins of Fox 16 news, Mr. Bill Lundy a Retired Firefighter, Ms. Sharon Phillips and Mrs. Kathy Lindsey, Pension Fund Administrative Staff.

Mr. Hensley informed the Board that he had received a telephone call from Mr. Moore who was out of state and unable to attend the meeting, and from Mr. Lowery who had been subpoenaed to Federal Court, and was also unable to attend.

In Mr. Moore's absence, Mr. Furlow called the meeting to order at approximately 9:06 a.m., certifying that a quorum of the Board was present, and that the media had been properly notified in a letter dated August 26, 2009 to the Arkansas Democrat-Gazette.

Copies of the August minutes had previously been submitted to Board members and following their review, Mrs. Lenehan asked that an amendment be made on the last line of page two (2), by substituting the word "*fiscal*", for "physical" impact. Additionally, on page four (4), third (3rd) paragraph, line six (6) the following language be included to read, "at which time upon advice from *the Pension Board's Legal Counsel with concurrence of the* City of Little Rock Legal Counsel paid the above referenced three year amount". Mr. Harrod made a motion to approve the amended minutes. Mrs. Lenehan seconded the motion and it passed unanimously.

Mr. Brister and Mr. Jordan gave the August 2009 financial report and said that on August 31, 2009 the market value of the total Fund was \$47,789,849, of which \$24,684,717.28 was allocated to the DROP. This represents an increase in the account balance of \$222,880 since July 31, 2009. The component of this change was income of \$53,363. There were net contributions/withdrawals of (\$498,971). Additionally, \$715,741.27 was held in the Metropolitan Bank Checking Account. The Funds overall market rate of return for the month of August 2009 was 1.51% and 5.52% calendar year to date.

During their report, Mr. Brister and Mr. Jordan told the Board that they will soon begin adjusting

the Funds portfolio allocation in anticipation of future inflation that may begin by the second (2nd) half of 2010, but could occur sometime later. When reminded of the eroding effect that inflation has in terms of buying power for members of the Fund who have fixed incomes, and asked what general levels of inflation are anticipated, Mr. Brister explained that some models are as high as double digit, however future rates of inflation will be determined by several different factors, therefore it could be less. Additionally, Mr. Jordan said that unemployment claims were down some, but continues to remain high.

Mr. Harrod distributed an article from the Arkansas Democrat Gazette regarding State retirement systems. The article reported that the Arkansas State Police average annual pension is \$31,910.00, the average annual pension for the Arkansas State Highway employees is \$26,532.00 and the average annual pension for judicial employees is \$71,429.00. Mr. Harrod explained that although the news article did not reference municipal retirement systems, he did think that it provided somewhat of a perspective regarding the amount of various governmental pension benefits.

Mr. Smith reported that the Legislative Retirement Committee had met approximately two weeks ago to consider adoption of various legislative bills that were previously referred to interim study during the past Legislative session. He explained that Senator Gene Jeffress discussed Senate Bill 178 that had previously passed Legislative Committee on two occasions, but was ultimately pulled from the full Senate agenda by Senator Steve Faris. The bill would have provided a three (3%) cost of living adjustment (COLA) for local Municipal Police and Fire Pension Funds who merge with the State Fire and Police Pension Retirement System (LOPFI). Mr. Smith said that the previously referenced Senate Bill was recently adopted by the Interim Study Committee, but continues to have a funding issue. He additionally explained that it is very important to create as much favorable attention as possible for the Bill, and that fortunately Senator Jeffress is willing to work it within the Committee, and include him (Mr. Smith) in the process.

Mr. Smith explained that the premium tax pool is generated from taxes paid on all forms of insurance in the State of Arkansas; however specific lines are designated for Police and Fire Pension Fund use. Each policy is broke down into various categories such as collision and liability, then a premium tax is collected on each specific line. The automobile insurance lines are primarily designated for Municipal Police Pension Fund use, and homeowner insurance lines are primarily designated for Municipal Fire Pension Fund use. He said that the first (33 1/3%) of those funds are designated for State general revenue use, and the approximate remaining (66 2/3%) is primarily designated for Municipal Police and Fire Pension Fund use. He explained that based on a formula that is set in place, the money is then distributed to Municipal Police and Fire Pension Funds; however all unused remaining money that is not distributed after utilizing the formula is again designated for Arkansas State general fund use. He said that currently the Governor is not receptive to contributing any additional funding to the local Municipal Police or Fire Pension Systems, if the employers are not willing pay their part.

Mrs. Lenehan briefly addressed the matter, and stated the City of Little Rock does contribute to their local Pension Funds.

Mr. Hensley reported that the Arkansas Fire and Police Pension Review Board (PRB) had recently received a response from the Governor's Office regarding a previous request made in a letter asking him to include a representative of the PRB on an upcoming committee that would potentially be

dealing with the Arkansas Insurance Premium Tax Funding Pool. Although the specific request was denied in a letter received from the Governor's Office, it was indicated that a non-voting member might be allowed to participate in the upcoming committee meetings. He (Mr. Hensley) said that in a PRB meeting earlier in the week a motion had passed authorizing the Chairman to send yet another letter to the Governor requesting that Mr. David Clark, Executive Director of the PRB and LOPFI be appointed as the representative.

Mr. Smith addressed the matter, and said that the committee is formed in accordance with Arkansas State Statute, specifically placing Directors of various state retirement systems on the Committee, however did not include the PRB or LOPFI systems. He (Mr. Smith) then explain that he had recently received a telephone call from the Governor's Office informing him that Mr. Clark would be included on the Committee as a non-voting member.

Upon a previous request made by the Board, Mr. Carreiro presented a cash flow analysis of a potential Fund consolidation with the State Pension Retirement System (LOPFI), and to discuss an upcoming presentation to the Little Rock City Board of Directors, regarding the overall funding issue. He presented the previously referenced analysis report to the Board, and during a lengthy presentation and discussion session, explained that a LOPFI consolidation of the Local Fund without a three percent (3%) COLA would be an additional net cost to the City of \$494,542.00 the first year, then would continue to increase annually over a fifteen (15) period, however would ultimately ***save the City approximately \$8,000,000 on a net present value basis over a 30 year period.*** Conversely, the net cost of consolidation with a three (3%) COLA would be \$2,583,015.00 the first year, then would continue to increase annually over a fifteen (15) year period, and would ultimately ***result in approximately \$15,000,000 on a net present value cost to the City*** over a thirty (30) year period. Additionally, Mr. Carreiro explained that as of December 31, 2008 the Fund had an unfunded liability of approximately \$57,000,000.00, with a fifty percent (50%) risk of ruin (total depletion of assets) in approximately sixteen (16) years.

Mr. Hensley told the Board that he does not favor such a consolidation with LOPFI unless it includes a COLA, because future annual inflation will continually erode the buying power of members with fixed monthly pension benefits.

Mr. Harrod told the Board that he would not be in favor of such a consolidation unless it included a COLA because of the impact that future inflation would have on the monthly benefit that members receive. He then addressed the previously referenced comment regarding a fifty percent (50%) risk of ruin (total depletion of assets) in sixteen (16) years, and pointed out that currently the approximate average age of members in the fund is at sixty five (65) years.

Mrs. Lenehan explained that the primary benefit of a consolidation with LOPFI without a COLA, is that the potential "risk of ruin" issue would be eliminated.

Mr. Rowan said that although he agreed with the previous statement regarding the effects of inflation on a fixed pension benefit, he was concerned that if something is not done to stabilize the Fund, not only could members not have their core benefit, but might have a reduced one. He said that it is also the Board's responsibility to immediately do what is in the best interest of the Funds members.

He said that even though a COLA is desirable, the only practical course of action is to merge the Fund with LOPFI, "period".

Mr. Hensley at that time introduced Little Rock City Board Resolution number 8,581, adopted on October 1, 1991, signed by then Mayor Sharon Priest, and City Attorney Thomas M. Carpenter. Section two of the resolution read: ***"That the Board of Directors intends to make available any funds needed to enable the Fund to meet its benefit obligations, should the Fund be unable to do so, by appropriation in the annual budget for the City of Little Rock, Arkansas or by supplemental appropriation, if needed."*** Mr. Hensley concluded that the language and intent while given the full credibility of the Board was clearly stated in the official City Board resolution, therefore to even consider a consolidation without a COLA would not be a benefit to the Fund or its members.

During a lengthy Board discussion regarding the upcoming presentation to the Little Rock City Board of Directors, Mr. Hensley said although some members of the Board would desire a COLA, they seemingly just want to consolidate with LOPFI. He said that taking such a position in the presentation, and insisting on anything less than a consolidation with a COLA as the acceptable solution, is acting out of fear, and is a very poor position to take.

Mr. Harrod told the Board that he believed the presentation should clearly insist on a COLA being the only acceptable solution to the problem, and gave an example of the North Little Rock Police Pension Fund who consolidated with LOPFI approximately fifteen (15) years ago, and have not received a COLA since that time.

Mr. Rowan told the Board that his first obligation is to the core benefit of the Fund, and that he was concerned regarding the previously stated "time frame for ruin". He said that it is regrettable that the Pension Plan does not have a COLA, but he is unable to force the City Board of Directors to provide funding for one at this time.

Mrs. Lenehan left the meeting for a previously engagement at 11:48 a.m.

Mr. Furlow said that the presentation should be an attempt to "sell" the need for a COLA to the City Board of Directors by possibly using an example of a Pension Plan who has in the past consolidated without a COLA and the impact that such a consolidation had on members in the Plan.

Mr. Smith addressed the matter, and said that the Board has a clear fiduciary responsibility to the Fund and its members. He explained that over time, the Local Board has exhibited a concern that retired members be able to keep pace with the increasing cost of living, and that to ignore it now would be out of character for the Board.

Although some Board members did not want to include in the presentation the issue of money owed by the City of Little Rock for past probation fees, they did agree that the presentation should be made to the City Board of Directors during the month of November, and that Mr. Smith and Mr. Carreiro who will be involved in the presentation, should be working together in preparation for it.

Mr. Hensley made a motion for the Pension Board to take a formal position, insisting that the City of Little Rock pay probation fees in an amount of \$460,531.06 to the Fund that were withheld between the years of 1995 until 2005, contrary to Arkansas State Statute

Following a brief discussion, Mr. Harrod called for the question. The motion passed unanimously.

Mr. Hensley then made a second motion to include in the City Board presentation the formal position previously taken by the Pension Board regarding unpaid probation fees.

Mr. Harrod called for the question, and the motion passed unanimously.

In the absence of legal counsel, both legal reports were tabled until October.

In the absence of Mr. Moore, the matter concerning distribution of premium insurance tax funding was tabled until October.

In the absence of Mrs. Lenehan, matters concerning the financial reports and updated procedure manuals for Board members were tabled until October.

Also, matters concerning the previously approved \$50.00 monthly benefit increase, the distribution of annual police supplement, and scheduled review of legal and financial professional providers were all tabled until October.

Mrs. Lindsey told Board Members that Mr. John Peace had provided copies of a document that could be found in their monthly meeting packet regarding the issue of immunity, previously requested by them.

Mr. Hensley informed the Board that a card had been received from Ms. Amelia Day, thanking them for the police supplement payment and their commitment to members of the Fund.

Upon conclusion of Pension Board business, Mr. Hensley made a motion to adjourn the meeting, and meeting adjourned at approximately 12:23 p.m.

Respectfully Submitted,

Farris Hensley
Board Secretary